REPORT of the
AUDITOR GENERAL
to the NOVA SCOTIA
HOUSE OF ASSEMBLY

...2006

December
Highlights

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REPORT of the AUDITOR GENERAL to the NOVA SCOTIA HOUSE OF ASSEMBLY

HIGHLIGHTS

PREFACE

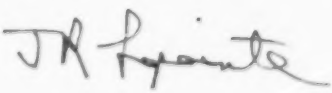
This Report includes the results of audit work completed between June 2006 and December 2006.

To give readers an appreciation of the more significant findings contained in my December 2006 Report, I publish this highlights volume. It provides a brief summary of the results of audit work included in the Report.

However, I suggest that those who may wish for a fuller understanding of any of these matters, refer to the full Report. The highlights volume notes the related page numbers of the full Report for each of the subjects.

To assist readers we have also included all 29 of the Report's recommendations in this highlights volume.

I and my staff seek to communicate our messages as clearly and concisely as possible. Comments from readers on the value of this highlights volume or on the complete Report will be welcomed.



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Auditor General

Halifax, Nova Scotia
December 6, 2006

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INTRODUCTION

Message from the Auditor General
Pages 3 - 7

1.1 I am pleased to present my December 2006 Report to the House of Assembly on work completed by my Office in the second half of 2006.

1.2 As the Province's Auditor General, my goal is to help provide better government for the people of Nova Scotia. As an independent officer of the House, I provide to the House, and to the public, assurance on, and assessments of, the integrity of government's financial reporting, the use of public funds and the operations and performance of the public sector. I consider the needs of the public and the House, as well as practical realities facing management, in providing sound practical recommendations to improve the management of the public sector.

1.3 My priorities, during my term of office, are: to focus audit efforts on areas of high risk that impact on the lives of Nova Scotians; to contribute to a more effective, efficient and better performing public service for Nova Scotia; and to foster better financial and performance reporting to the Legislature and the people. This report reflects this service approach.

1.4 I wish to acknowledge the valuable efforts of my staff who deserve the credit for the work reported here. As well, I wish to acknowledge the cooperation and courtesy we received from staff in departments and agencies during the course of our work.

1.5 In conducting our audits, we sometimes identify issues that may have broader applicability beyond the particular entities in which the issues emerged.

1.6 First, we found, in several audits, deficiencies in the quality or adequacy of information used to measure and monitor operational performance. Good performance information is needed to ensure that public sector entities are achieving their stated objectives. Departments, agencies and boards may wish to review the performance information available to them to ensure that senior management and governing bodies are able to properly fulfill their governance responsibilities.

1.7 Secondly, we noted that deficiencies with respect to management operational information are in some cases being addressed by the development of new information systems. We encourage the timely and cost-effective completion of such projects to provide management with better program information.

GOVERNMENT-WIDE ISSUES

Government Financial Reporting

Pages 10 - 26

2.1 The Auditor General's opinion on the 2006-07 revenue estimates, required under Section 9B of the Auditor General Act, was tabled in the House of Assembly on July 4, 2006 along with the government's budget documents. Consistent with the opinion on the May 9, 2006 revenue estimates, it included reservations of opinion related to scope limitations and non-compliance with generally accepted accounting principles (GAAP).

2.2 The Auditor General's audit report on the Province's March 31, 2006 consolidated financial statements was unqualified. It was tabled September 29, 2006 as part of the March 31, 2006 Public Accounts. A management letter on this year's audit will be issued to

government in December 2006 which will include other findings and issues from the audit.

2.3 Significant steps have been taken to move government's consolidated financial statements to full compliance with GAAP. We encourage government to continue its efforts to achieve full compliance with GAAP for both the financial statements and budget.

2.4 Additional appropriations of $110,761,000 for 2005-06 expenses were approved on September 29, 2006 by Order in Council (OIC) 2006-413. A special warrant for $325,537,000 was approved by OIC 2006-263 on June 22, 2006.

2.5 Current legislation impairs the effectiveness of control over changes to spending authority for public funds because it allows for after-the-fact approval of additional spending authority. As well, effective control and accountability to the House of Assembly for spending authority limits are impaired. For example, there was no debate in the House of Assembly concerning the funding of March 2006 spending initiatives which resulted in approximately $42 million in additional appropriations.

2.6 Two concerns relating to compliance with the Provincial Finance Act were identified during our work on the consolidated financial statements. The first was a result of inconsistencies in the Act concerning overspending of appropriations. The second was government's undertaking to provide a level of financial commitment to the 2014 Commonwealth Games which was communicated to the Halifax 2014 Commonwealth Games Bid Committee prior to the required review and approval.

2.7 During our audit of the consolidated financial statements and review of the revenue estimates, we were not provided access to certain information we requested. We have recommended that government work with the Office to clarify the boundaries of access to information under the Auditor General Act.

2.8 Our recommendations to government from this chapter are as follows:

Recommendation 2.1

We recommend that government complete a detailed analysis of the appropriate accounting treatment for the WCB, and ensure full compliance with GAAP in the 2006-07 and future financial statements.

Recommendation 2.2

We recommend that the Provincial Finance Act be amended to eliminate the existing inconsistency related to additional appropriations and steps be taken to ensure all actions taken by government are in compliance with the requirements of the Act.

Recommendation 2.3

We recommend that Treasury and Policy Board and the Department of Finance work with the Office of the Auditor General to clarify the boundaries, both in substance and form, of the access to information allowed under the Auditor General Act.

DEPARTMENT AUDITS

• • Finance and Public Service Commission

Audit of HR Application Controls in SAP R/3 System
Page 28-32

3.1 In June 2006, the Office of the Auditor General, in partnership with the Department of Finance and the Public Service Commission, contracted with a public accounting firm to perform an audit of the HR application controls in government's SAP R/3 system.

3.2 The auditors of the application controls in the government's SAP HR system reported the following conclusions.

- *"Generally speaking, our review indicated that the SAP HR application module is configured to include the appropriate controls over transaction accuracy, validity and completeness; however, some weaknesses have been identified and recommendations for improvement have been provided in our Letter of Recommendations.*

- *Given the level of access granted to users within SAP, however, including the number of users who have access to execute incompatible functions within SAP, we conclude that HR SAP-based application controls were not operating effectively throughout the period of anticipated reliance and therefore recommend that they not be relied upon for purposes of the annual audit."*

3.3 A government-sponsored project currently is underway to implement the HR component of SAP R/3 for the Nova Scotia Regional School Boards. The results of this audit, including all

the specific instances of noted weaknesses, should be taken into account to ensure that the same weaknesses are not implemented in the school boards' HR system.

3.4 Our recommendation to government from this chapter is as follows:

Recommendation 3.1

We recommend that management implement appropriate controls to resolve the reported weaknesses in HR application controls in the SAP R/3 system.

• • Health

Review of Systems to Collect Wait Time Information

Pages 33-50

4.1 In October 2005, the Department of Health established a website (http://www.gov.ns.ca/health/waittimes/default.htm) which "*provides information on Nova Scotia's plan to improve wait times, highlighting the progress to date, and sharing wait time information for publicly funded tests, treatments, and services across the province.*"

4.2 In the spring of 2006, the Department of Health requested the Office of the Auditor General to provide an opinion on whether the systems that provide data supporting certain wait times are adequate to produce reliable, complete and accurate information.

4.3 The level of assurance provided on the findings and conclusions in this chapter is less than for an audit (i.e., a review provides moderate assurance while an audit provides high assurance). This is because of the type

of procedures we performed. Our evidence was based on enquiry, analysis and discussion and was focused on reaching conclusions that are plausible in the circumstances. We did not perform sufficient testing and other audit procedures to permit us to give audit (high) level assurance on our conclusions.

4.4 The role of audit is well understood in the provision of financial information, but is just beginning to be recognized in the provision of non-financial information. Nova Scotia is the first jurisdiction in Canada to formally request its legislative auditor to examine wait time information. We commend the Department of Health for the leadership shown in requesting this review and for its efforts to report accurate, reliable and complete wait time information.

4.5 The following are the principal observations from our review.

4.6 Wait Times for Referrals to Cancer Specialists (Radiation) - We concluded that the system supporting production of this wait time information at Capital Health is adequate to produce data that is accurate, reliable and complete. For the Cape Breton District Health Authority, we were unable to conclude that the system was adequate because of anomalies affecting the completeness and accuracy of the data.

4.7 Wait Times for Diagnostic Services (MRI) - We were unable to verify the calculations of this wait time at both Capital Health and Cape Breton District Health Authority because certain supporting documentation is not available for verification after the wait time is calculated and reported.

4.8 Wait Times for Treatment Services (Knee Replacements) - We concluded that the system

supporting production of this wait time information is adequate to produce data that is accurate, reliable and complete.

4.9 During our review of all three wait times, we found that there were few formal controls over the quality of information reported. We have made several recommendations to improve quality control processes.

4.10 Our recommendations to government from this chapter are as follows:

Recommendation 4.1

We recommend that the use of all OPIS fields be standardized.

Recommendation 4.2

We recommend that the reporting capabilities of OPIS be communicated to all those responsible for preparation of wait time reports which use the system for source data.

Recommendation 4.3

We recommend that the reporting of wait times for referrals to radiation cancer specialists reflect more comprehensive information such as the cumulative distributions by type of cancer.

Recommendation 4.4

We recommend that the Department of Health modify the definition of MRI wait times used on the website to ensure it is consistent with the information calculated and provided by the District Health Authorities.

Recommendation 4.5

We recommend that the Department of Health's website disclosure of the wait time for MRIs reflect more comprehensive information such as the specific wait times for major types of MRI examinations rather than just a single data point such as the average for all types.

Recommendation 4.6

We recommend that the Department of Health continue to monitor submission dates for physician claims to ensure that the quarterly data downloaded from the MSI billing system is substantially complete for purposes of the specific wait time calculation.

Recommendation 4.7

We recommend that, to the extent possible, the physician billing system and related billing codes be modified to increase the accuracy and efficiency of wait time calculations.

Recommendation 4.8

We recommend that the Department of Health consider building the requirement for wait time information and reports into automated systems.

Recommendation 4.9

We recommend implementation of a formal quality control process for wait time data at both the District Health Authorities where the reports originate and the Department of Health.

Recommendation 4.10

We recommend that the Department of Health formally document policy guidance for how each wait time is to be calculated.

Recommendation 4.11

We recommend that all District Health Authorities retain, for at least one year, the support for all wait times reported to the Department of Health.

Recommendation 4.12

We recommend the Department of Health develop a centrally stored user manual explaining the process and logic for each automated wait time calculation.

Recommendation 4.13

We recommend that all programming changes related to electronic wait time information be subject to appropriate testing and review. In addition, we recommend that the code be locked as read only between iterations.

• • Justice

Correctional Services

Pages 51-69

5.1 The Correctional Services Division of the Department of Justice is assigned responsibility for the administration of community and custody-based sentences. Accordingly, Correctional Services is divided into two core program areas: community corrections and correctional facilities. Correctional Services

also has a program services section to support the two core program areas. In addition to administering court-imposed sentences, Correctional Services serves the court by preparing pre-sentence reports, providing alternative justice measures to assist the court in diverting minor adult offenses from the court process, and by providing programs to assist offenders in reintegrating into the community.

5.2 Performance information currently prepared by Correctional Services is inadequate to assess the efficiency and effectiveness of its programs and services. Correctional Services is in the process of addressing these deficiencies.

5.3 Pre-sentence investigations and reports are generally completed in compliance with Departmental policies and procedures. However, they are not always completed within the timeframe set out in policy.

5.4 There is inadequate compliance with policies and procedures for monitoring and enforcing community-based sentences. We identified instances of inappropriate offender reporting schedules being used and offender risk assessments not completed as required by the policy. We also identified several instances where breaches of the terms and conditions of a community-based sentence occurred but breach proceedings were not initiated. Support for the decision to exercise discretion in these instances was not included in the case files.

5.5 There is general compliance with policies and procedures for enforcing custodial terms and conditions of intermittent sentences. We did, however, identify instances of non-compliance with offender admittance and release policies and procedures.

5.6 Due to inadequate file documentation and a need to clarify certain policies, we were unable to assess whether conditional release policies and procedures had been fully complied with. However, we concluded terms and conditions of conditional releases are monitored and enforced in accordance with policy.

5.7 Roles and responsibilities within Correctional Services are generally clearly defined, assigned and communicated.

5.8 Our recommendations to government from this chapter are as follows:

Recommendation 5.1

We recommend Correctional Services develop, implement and report performance measures, indicators and targets for all key programs and services to enable an assessment of the efficiency and effectiveness of the Division.

Recommendation 5.2

We recommend Correctional Services clearly define, assign and communicate staff roles and responsibilities for performance information and reporting.

Recommendation 5.3

We recommend Correctional Services modify its policies and procedures to include a requirement for formal, documented review and approval of pre-sentence reports. We further recommend that a scheduling and tracking system be implemented to ensure reports are prepared and submitted to the courts in accordance with policy.

Recommendation 5.4

We recommend Correctional Services develop and implement controls to ensure compliance with policies and procedures related to community-based sentences.

Recommendation 5.5

We recommend Correctional Services complete its update of intermittent sentence policies and procedures on a timely basis. We further recommend Correctional Services develop and implement controls to ensure compliance with intermittent sentence policies and procedures.

Recommendation 5.6

We recommend Correctional Services develop controls to ensure there is appropriate compliance with its conditional release policies and procedures, and adequate documentation is maintained to support compliance. We further recommend that policies and procedures be updated to address all types of conditional releases and staff authorities.

• • Transportation and Public Works

Planning and Management of Highway Projects *Pages 70-83*

6.1 The Department has long-range, short-term and annual plans for highway projects. Processes for review and updating of long-range and short-term plans have not been developed.

6.2 The Department has determined that annual funding for capital highway projects is currently not sufficient to meet the Province's long-

term highway transportation system needs. Accordingly, the Department has prioritization processes for selecting highway projects. However, processes and information systems used by the Department are not sufficient to ensure that the projects selected will contribute, to the fullest extent possible, toward the accomplishment of the Department's strategic objectives.

6.3 There are regular reporting and monitoring practices for highway projects. However, there are weaknesses in the information and reporting systems which could compromise the security and accuracy of the data collected and reported.

6.4 The Department has an appropriate project management methodology for highway projects. However, we noted instances where the Department's project management methodology was not consistently applied. The Department has developed project review processes which would provide assurance that staff are carrying out their duties and managing highway projects in accordance with the Department's policies. However, no project reviews were performed during the previous year.

6.5 Our recommendations to government from this chapter are as follows:

Recommendation 6.1

We recommend that processes be established for the review and updating of long-range and shorter-term highway plans on a timely basis to provide for use of current information in the prioritization of road projects.

Recommendation 6.2

We recommend the Department establish criteria for

determining which repaving projects should undergo a rehabilitation review and have such projects reviewed prior to tendering to ensure the most appropriate and economical rehabilitation measures are used.

Recommendation 6.3

We recommend that the Department work toward fully implementing the bridge management system on a timely basis. In addition, the Department should adequately address similar information needs for its management of pavement.

Recommendation 6.4

We recommend that the Department work toward fully implementing the highway capital management information system on a timely basis.

Recommendation 6.5

We recommend that the Department reestablish its project reviews as a means of providing assurance that management of highway projects is consistent throughout the Province and in accordance with the Department's policies. Further, the reviews should ensure complete and consistent file documentation is maintained for highway projects.

• • Follow up of Prior Audits

Follow up of 2003 Audit Recommendations

Pages 86-103

7.1 We requested government management self-assess progress in implementing the recommendations in the 2003 Report of

the Auditor General and also the November 2003 Report of the Auditor General On the Consolidated Financial Statements of the Province of Nova Scotia For the Year Ended March 31, 2003 and Other Financial Reporting Practices. We performed a review of the self-assessments and supporting documentation and provide *moderate assurance* to readers of this chapter. Nothing has come to our attention to cause us to believe that the representations made by government management are not complete, accurate and reliable with one exception.

7.2 In 2003, we made 129 (2002 - 90) recommendations to government which included a total of 137 (2002 - 104) sub-recommendations. Implementation status is summarized as follows. Comparative results from the 2002 recommendations are shown below in parentheses.

- Complete - 48% (2002 - 35%)
- Work in progress - 34% (2002 - 42%)
- Planning stage - 2% (2002 - 7%)
- No progress to date, but plan to take action - 5% (2002 - 7%)
- Action no longer required or appropriate - 1% (2002 - 0%)
- Do not intend to implement recommendation - 7% (2002 - 5%)
- Other - 3% (2002 - 4%)

7.3 Although government has completed implementation of 48% of our 2003 recommendations, a significant number (41%) are described as work in progress, planning stage or government plans to take action. Government does not intend to implement 7% of the recommendations. Three years have elapsed since these recommendations were made. Progress has been slow and we encourage government to proceed with addressing and implementing the remaining recommendations as quickly as practical.

7.4 Government needs to take a direct role and responsibility for coordinating responses and actions on matters reported by the Auditor General. Government should regularly provide the House with its plans to deal with recommendations and other matters reported by the Auditor General. We recommend that government prepare and table its response to recommendations included in Reports of the Auditor General including plans for addressing them.

7.5 Our recommendation to government from this chapter is as follows:

Recommendation 7.1

We recommend that government prepare and table in the House its response to and plans for addressing recommendations included in Auditor General's reports.